

CKGSB Business Sentiment Index Report, Q3 2024

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2024 Q3 findings

In the third quarter of 2024, the [Business Sentiment Index \(BSI\)](#) stood at 54, slightly lower than the previous quarter, but with stable overall operating conditions. The operating conditions diffusion index stayed level (65), at the higher end of expectations. The operating prospects diffusion index rose to (51), just above the threshold (50) between growth and recession. The investment possibilities diffusions index have dampened this quarter (46) compared with last, with uncertainty the main drag on economic recovery. This quarter, the production diffusion index (48) and the finished product inventory diffusion index (48) rebounded. Increased production is this quarter's main trend. Stable investment sentiment shows that companies are optimistic about long-term investment opportunities.

This quarter, the cost (57) and price (51) diffusion indices both fell, as companies cut costs to push production, providing a favorable environment for demand and growth. Under the influence of countercyclical monetary policy adjustments, new corporate loans (7.2%) fell from the previous quarter, while financial institutions' willingness to lend (98) continued to grow. Industry generally feels the macroeconomic chill (Figure 10). Regularly injecting stability into the market, making efforts to boost consumer confidence and encourage producers are all ways to help get economic recovery back on track.

The following is an analysis by CKGSB professors Gan Jie and Erica Xuenan Li, first published on *Jiemian Shipping* on November 13, 2024.

Overall Business Sentiment Index and the investment prospects index fell, while the production prospects index rebounded

The third quarter of 2024 saw the Business Sentiment Index (BSI) (54) fall to just above the boom-bust line, showing a degree of sustainability of China's recovery (Figure 1). Breaking down the figures regionally, the BSI is highest in Shanxi, Hunan, Beijing, Guangdong and Hubei (Table 1). Since the last reporting period, Guangdong and Hubei replaced Guizhou and Chongqing in the top five, while Beijing rose from fifth to third. According to national accounting of regional GDP, in the first half of 2024, the regional GDP of Shanxi province was RMB 1.118685 trillion, calculated at constant prices, an increase of 1.9% over the same period last year, but lower than national GDP growth (5.0%). From January to July, the added value of industrial enterprises above a certain size by province fell 0.6% year-on-year, 0.4 percentage points lower than the previous six months. Among industries, the BSI is highest in electricity, heat production and supply, gas production and supply, coal mining and processing, water production and supply, and IT and electronic equipment manufacturing (Table 2), which are consistent as those in the previous reporting period. However, electricity, heat production and supply and gas production and supply took the top two places.

The BSI is determined by a combination of diffusion indices scoring operating conditions, operating prospects and investment opportunities (Table 3). The operating conditions diffusion index (65) has made steady progress since the previous reporting period (65) and compared with the same period last year (63), with greater vitality present in the economy.

The operating prospects diffusion index (51) has been running above the median line for 15 consecutive quarters, but is still far lower than the operating conditions index. This indicates a contradiction between performance and expectations. Factors that restrict production and operations in the forthcoming quarter have changed significantly compared with the previous quarter. Insufficient market demand, fierce competition, strong policy uncertainty, high cost of raw materials and parts, and insufficient funds (Figure 2) are all still present to dampen expectations. A total of 73.47% and 62.91% of surveyed companies are concerned that fierce competition and weak domestic and foreign market demand will have a significant impact on their short-term production and operation activities, while 17.02%, 13.12% and 9.80% of companies believe that strong policy uncertainty, high costs of raw materials and parts, and insufficient funds are limitations on short-term production and operation. In the medium and long-term, limiting factors are more extensive, including green production (56.78%), policy uncertainty (50.36%), technological innovation (47.08%), and capital adequacy (14.79%) (Figure 3). Whether in short-term operations or medium- and long-term development, policy uncertainty is a core concern.

The long- and short-term factors holding companies of various ownership types up (state-controlled or state-equity-holding, private, foreign-funded, and collective) hold similarities and differences (Table 4). The same thing is that when choosing factors that restrict production and operation in the next quarter, fierce competition and weak demand are the top two reasons stated by companies of these four ownership types. When choosing factors that affect medium- and long-term development, green production, technological innovation, and policy uncertainty are the top three answers of enterprises of various ownership types. The difference is that compared with the other three types of enterprises (private, foreign-funded, and collective), fierce competition, weak demand, and insufficient funds have relatively little impact on production and operation among state-owned (controlled/equity-holding) enterprises in the next quarter, and the adequacy of funds and policy uncertainty have relatively little impact on the medium- and long-term development of state-owned (controlled/equity-holding) enterprises.

The investment opportunity diffusion index (46) has fallen slightly from the previous reporting period (48). Only 1% of enterprises believe that now is a good time to invest, down from 2% in the first quarter of 2024. Investment confidence has fallen slightly. However, in terms of current investment practices, more companies are willing to grow their assets. The proportion of enterprises with fixed asset investment is 18%, which is the same as the previous period (18%); the proportion of enterprises with expansionary investment (12%) is the same as the previous period (Figure 4). In general, a fall in the BSI in Q3 shifted mainly due to the investment opportunity diffusion index. The operating conditions of enterprises have remained stable for three quarters. Although the evaluation of investment timing has fallen slightly, it reflects hope for future operating conditions. The stability of economic recovery will affect the judgment of enterprises on future expectations and affect the judgment of enterprises on investment decisions.

The production diffusion index is an important indicator of actual production status. The index has increased on the basis of maintaining stability in the previous quarter, from 45 to 48 (Figure 5), showing a gradual increase in production.

Weak demand remains an important factor in industry overcapacity

In the current quarter, the domestic oversupply diffusion index (97) rose slightly compared with the previous quarter, and the overseas oversupply diffusion index (100) remained level with the previous quarter, albeit both at historical highs (Figure 6). At the same time, the finished product inventory diffusion index rose from 44 to 48 (Table 5). As both the production diffusion index and the finished product inventory diffusion index have risen, we can look to the government's supportive policies as having impacted on both corporate confidence and improved market demand. The increase in production volume and inventory can help companies seize market opportunities, but if market demand does not grow as expected, it may lead to inventory backlogs and aggravate oversupply at home and abroad.

The top five industries with serious overcapacity are: non-metal mining and processing, car making, paper and paper products, metal products and home furnishings manufacturing (Table 6).

Compared with the second quarter, paper and paper products and home furnishings manufacturing replaced railway, ship, air equipment and other transportation equipment manufacturing and non-metal mineral mining to enter the top five, but the overcapacity problem of non-metal mineral mining and processing and automobile manufacturing continue to need our attention, with the industry still ranking in the top two this quarter. The top five regions suffering from serious overcapacity are: Heilongjiang, Jilin, Guangxi, Sichuan and Tianjin (Table 7). Compared with the previous period, Sichuan and Tianjin replaced Beijing and Jiangxi to enter the top five, Heilongjiang still ranked first, Jilin rose to second, and overcapacity continues to plague China's Northeastern (Dongbei) region.

This quarter, the proportion of enterprises with finished product inventory fell 1% to 77% compared with the previous period, and the proportion of enterprises with mounting finished product and raw material inventory fell from 22% to 20%, continuing the downward trend of the previous period. Destocking has been somewhat effective (Figure 7). As evidently excess inventory is being absorbed and new inventory numbers fall, the proportion of finished product and raw material inventory has shrunk this quarter. Improving market expectations, promoting technological progress and improving production efficiency can help companies reduce costs and restore market confidence.

Price and cost indices both fell in the third quarter

Judging from the three cost diffusion indices, pressure on enterprises in the third quarter has eased somewhat (Figure 8). The unit cost diffusion index (57) dropped by 1 compared with the previous period, the labor cost diffusion index (50) dropped by 1, the raw material cost diffusion index (57) remained the same as in the previous period, and the price diffusion index dropped from 52 in the second quarter to 51 now (Table 8). The slight decline in prices and costs can boost the confidence of consumers and producers, enhance the competitiveness of enterprises, and promote economic recovery.

The proportion of enterprises using bank loans for fixed asset investment is growing

Financial institutions still hold a more relaxed attitude towards credit, and the financing diffusion index (98), which reflects banks' willingness to lend, reflects a better lending environment, with the index increasing by 4 from the previous quarter. The proportion of enterprises with loans this quarter (46%) fell by 1 percentage point from the previous quarter (47%), and the proportion of enterprises with new loans (7.2%) decreased by 1.5 percentage

points from the previous quarter (8.7%). Among enterprises without new loans, the proportion of enterprises with no capital demand has been close to 100% for five consecutive quarters (Figure 9).

This quarter, most enterprises (90%) found current investment opportunities to be average, and 1% of enterprises found them to be good, 1 percentage point fewer than in the last quarter, but the proportion of enterprises with a negative attitude towards investment opportunities (9%) increased by 3 percentage points from the previous quarter (Figure 4). Among enterprises with fixed asset investment, the proportion of enterprises with new loans decreased from 11% to 8% and the loan attitude of financial institutions increased from 91 to 97, while the change in loan interest rates, which measures loan costs, increased from the previous period (36) to (41) (Table 9). Although enterprises' confidence in investment this quarter was somewhat lacking, banks' willingness to lend rose significantly, providing strong guarantees for enterprise financing.

About the Business Sentiment Index (BSI)

CKGSB's Center on Finance and Economic Growth surveys more than 2,000 Chinese companies from within the industrial sector every quarter to provide the most comprehensive set of independent data currently available. Led by CKGSB Professors of Finance Gan Jie and Erica Xuenan Li, this large-scale, micro-level quarterly company survey on China's industrial economy, which began in 2014 Q2, sheds light on how the sector is coping and what types of reforms are needed—based not on opinion, but on a painstaking, fact-gathering process.

Described as the first of its kind, this survey is based on stratified random sampling by industry, region and size from the National Bureau of Statistics' population of 488,000 industrial firms that have sales of over five million RMB. The survey has around 2,000 responding firms each time.

Each quarter, the professors reveal their survey findings, which are often surprising, given the usual themes found in the media today. They then outline some policy recommendations which are necessary to deal with the problems exposed by the survey's data.

Appendix

Figure 1: Business Sentiment Index

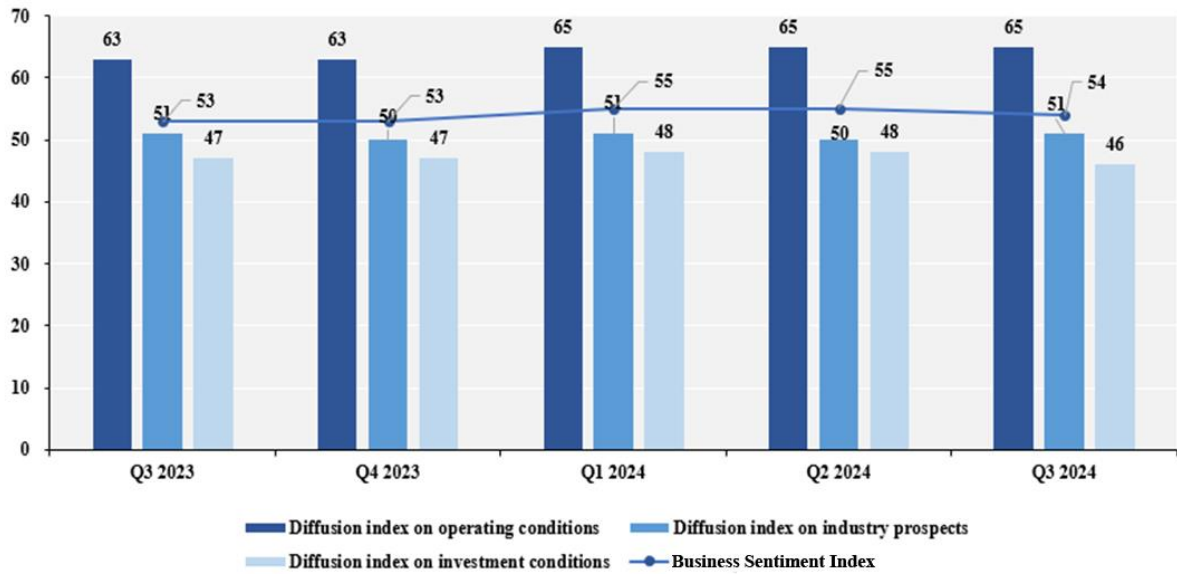
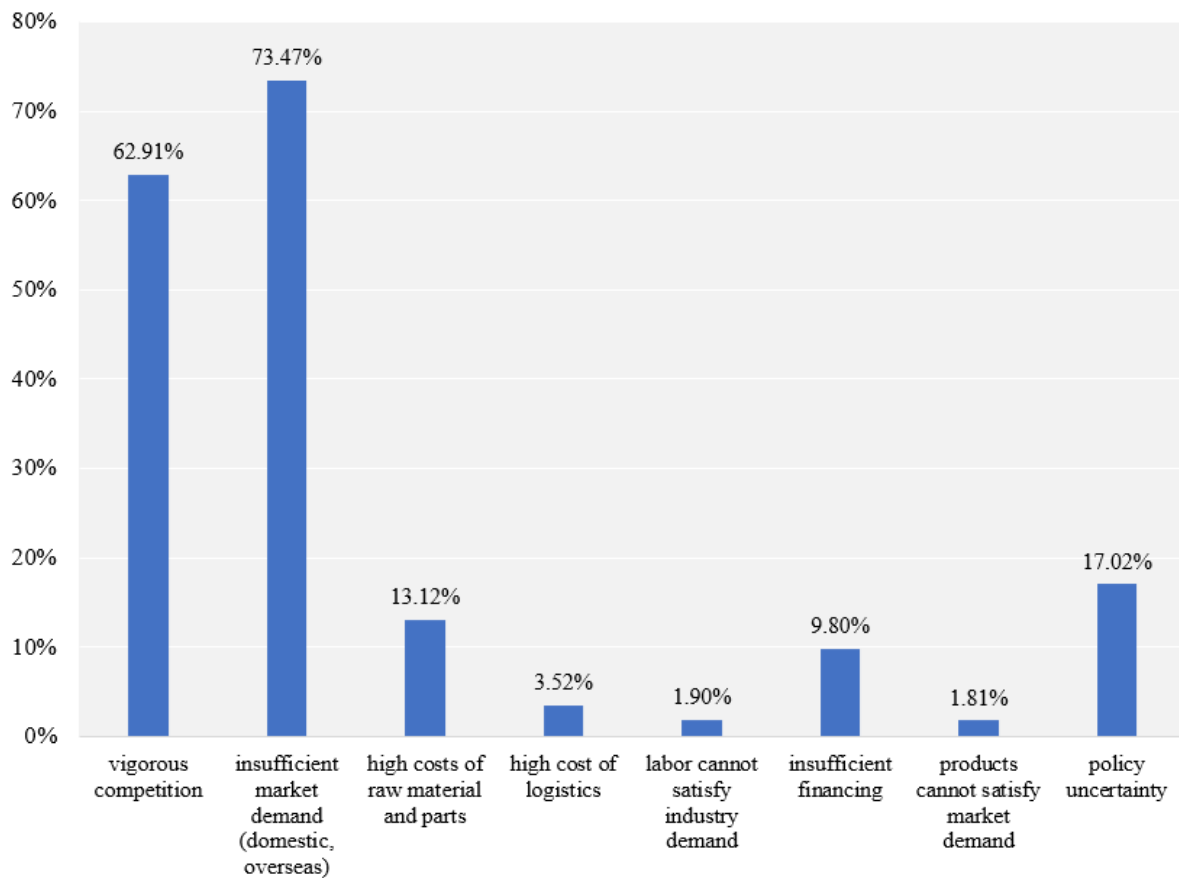


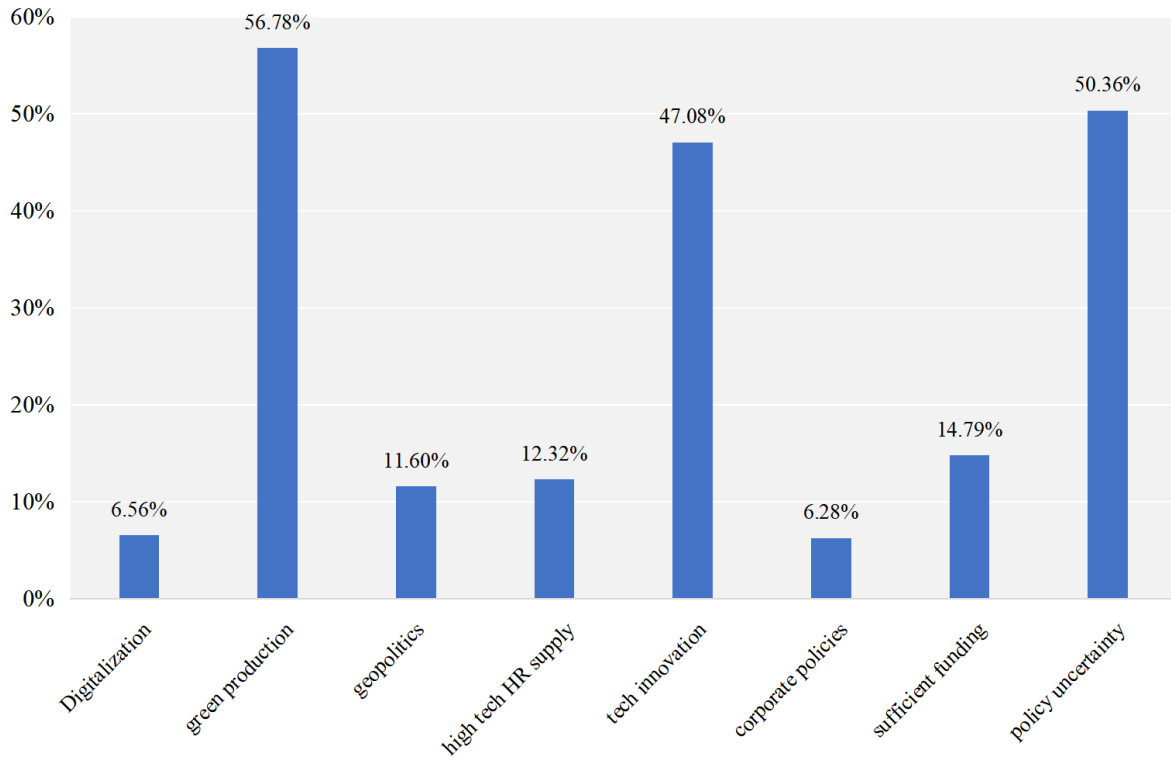
Figure 2. Operating prospects



Note: This is based on answers to a multiple-choice question, with the graph drawn from the number of times each option was selected (taking 62.91% for fierce competition as an example, 62.91% of the 2,047 surveyed)

companies believed that fierce competition was one of the factors curtailing production and operations in the next quarter.) The same applies to the graph below.

Figure 3. Long-term limiting factors on development



Note: As with above, this figure is produced based on answers to a multiple-choice question.

Figure 4: Investment conditions

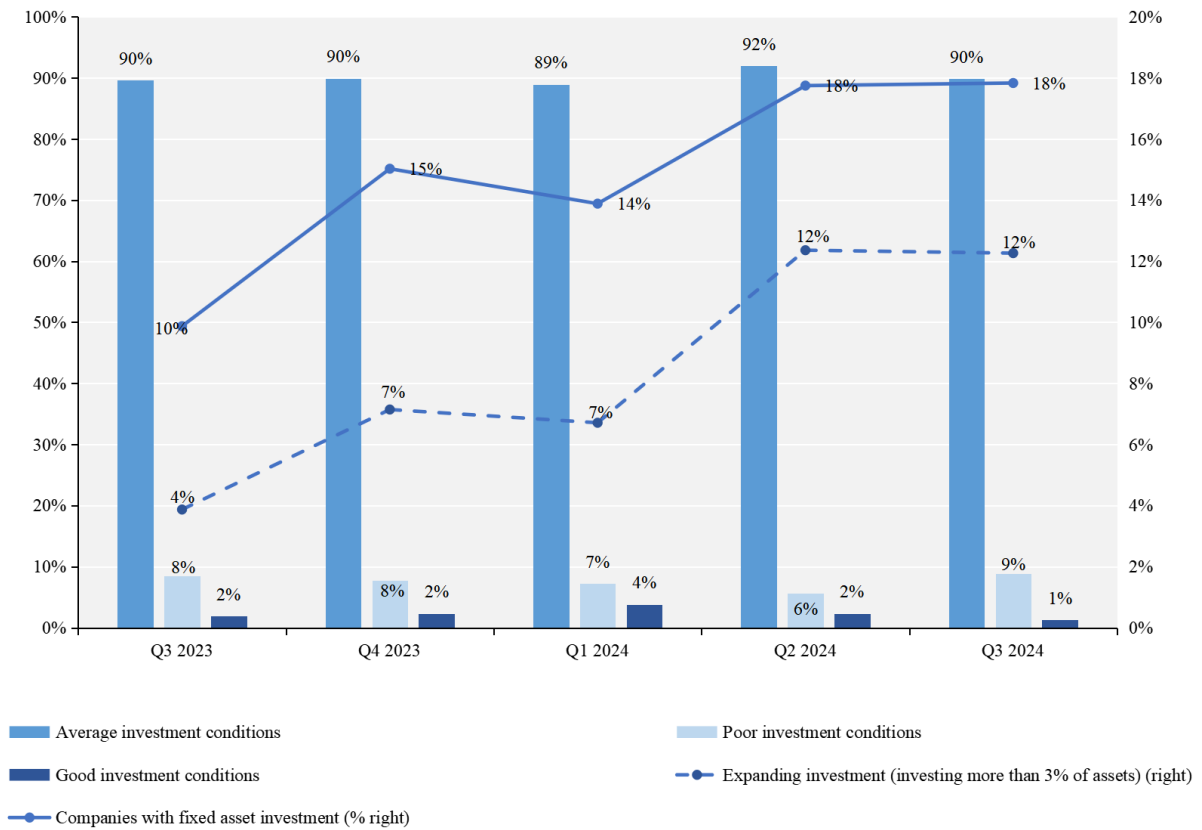


Figure 5: Diffusion indices

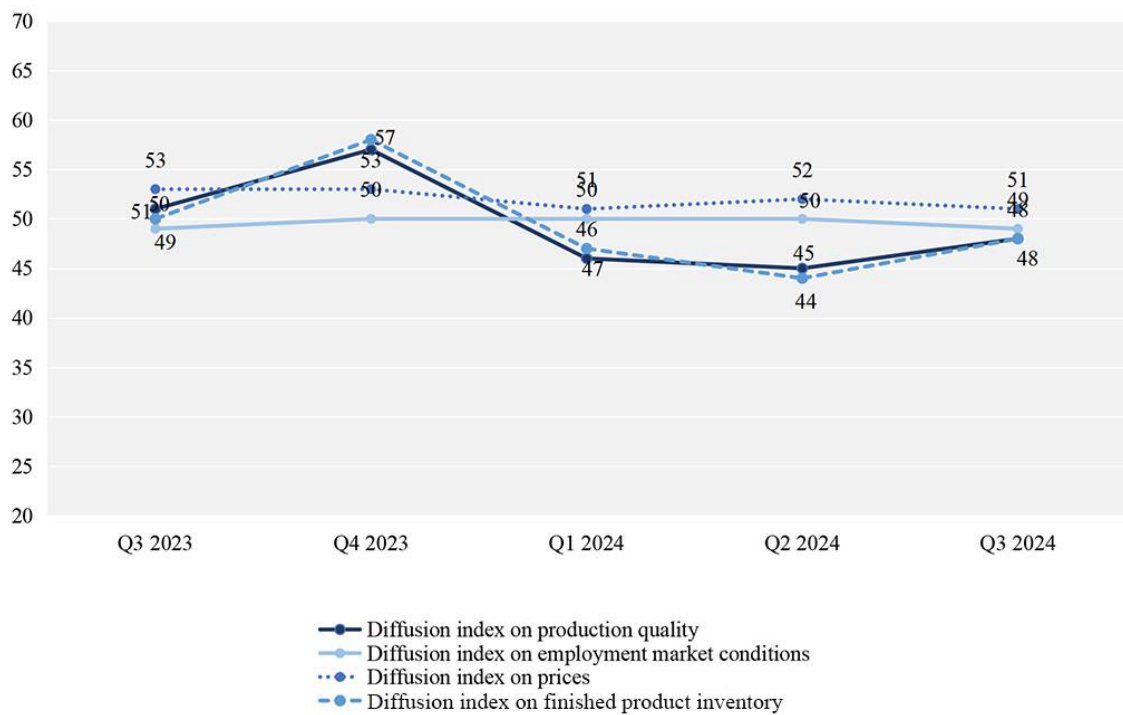


Figure 6. Domestic and overseas supply trends over the past decade

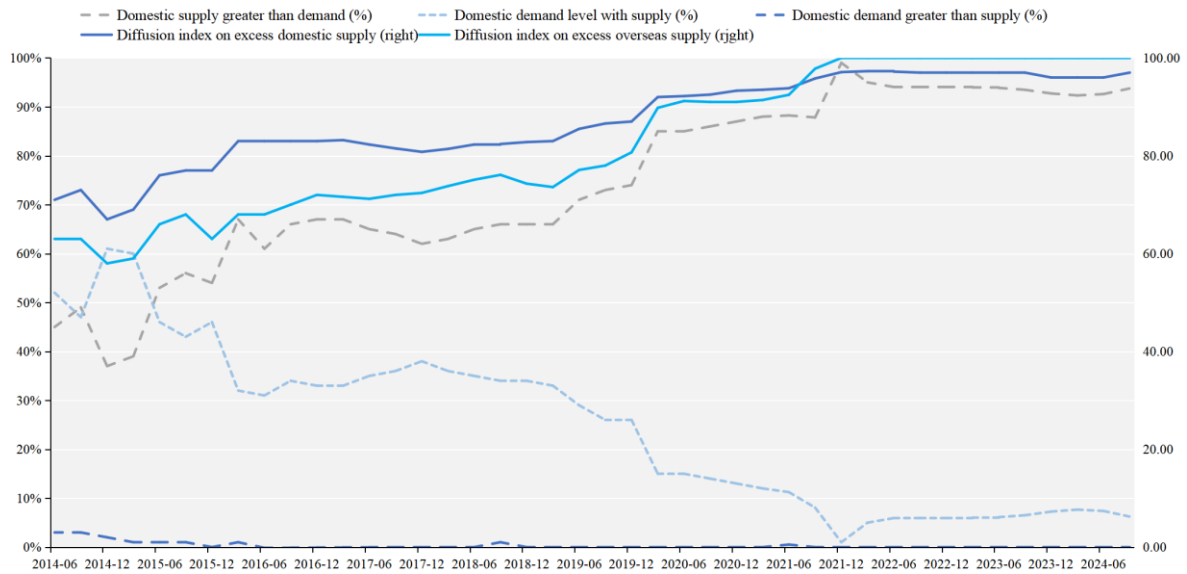


Figure 7. Finished product inventory

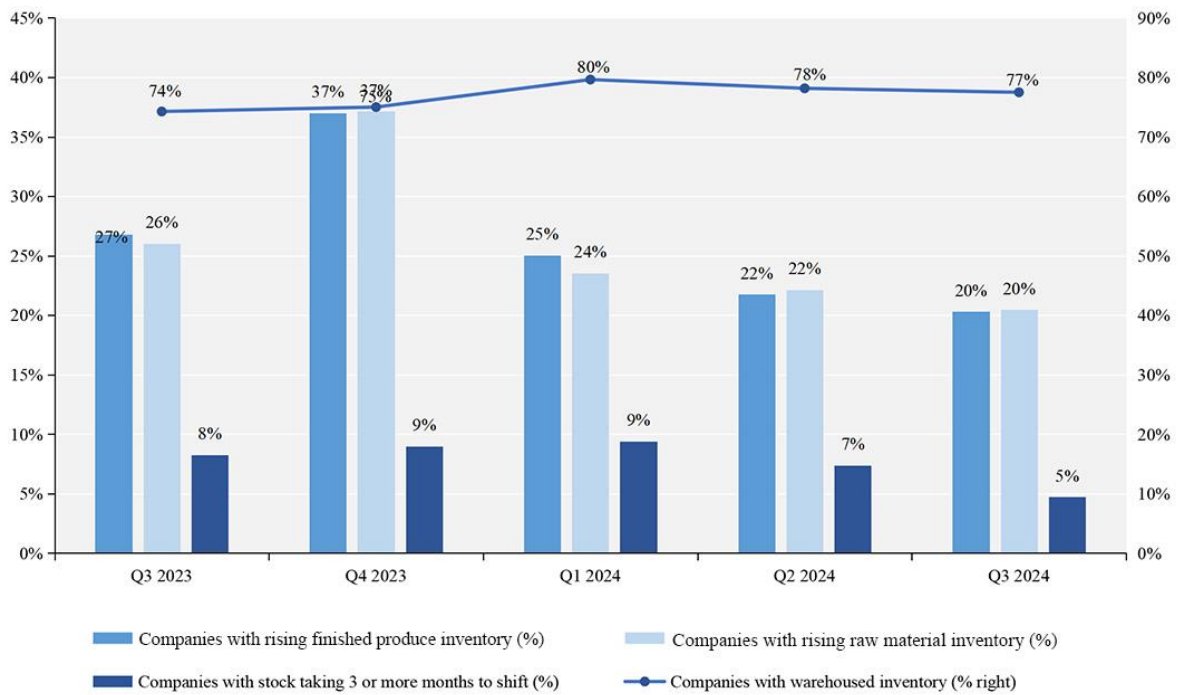


Figure 8. Production costs

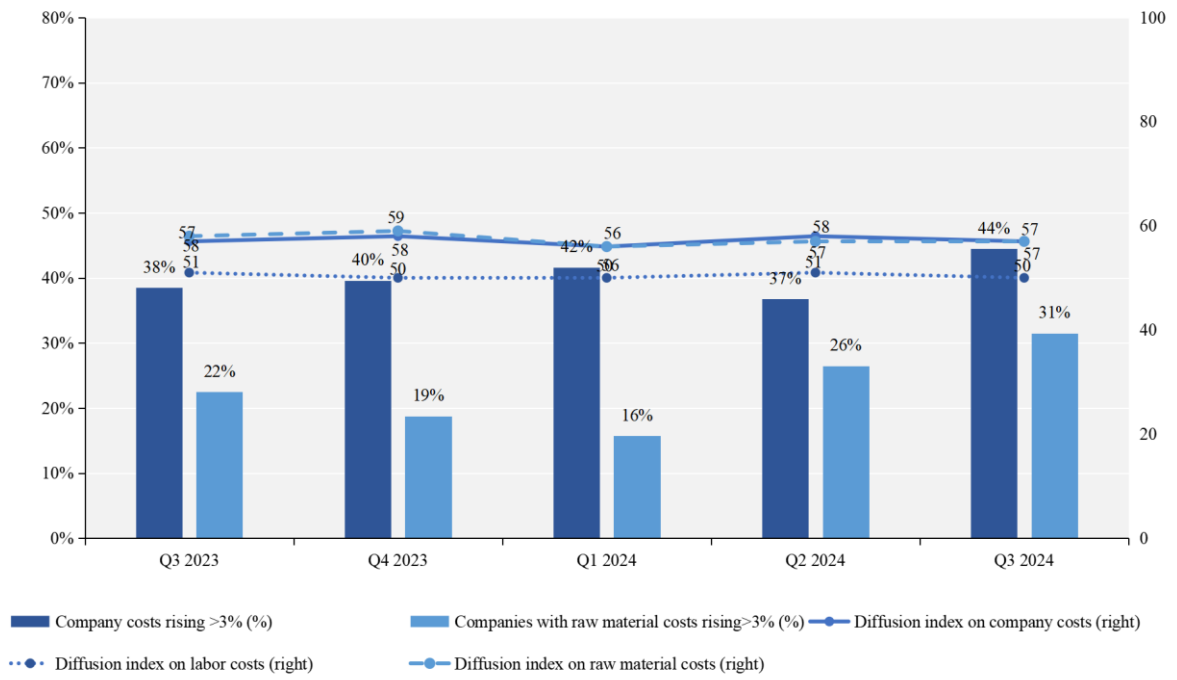


Figure 9. New loans

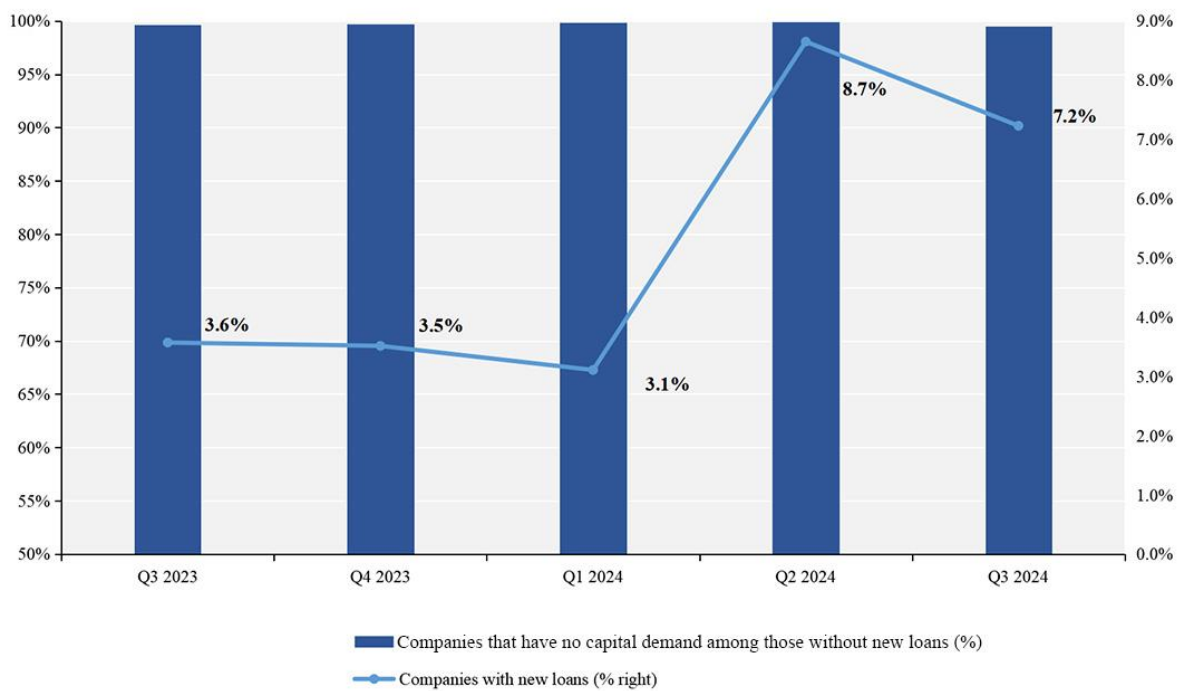


Figure 10: Macroeconomic conditions

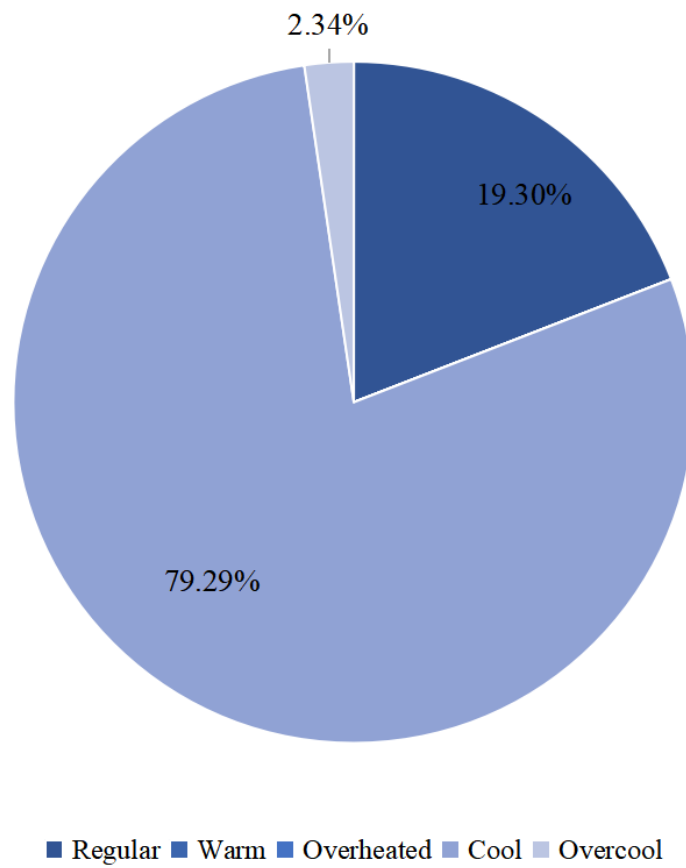


Figure 11: Views on prices

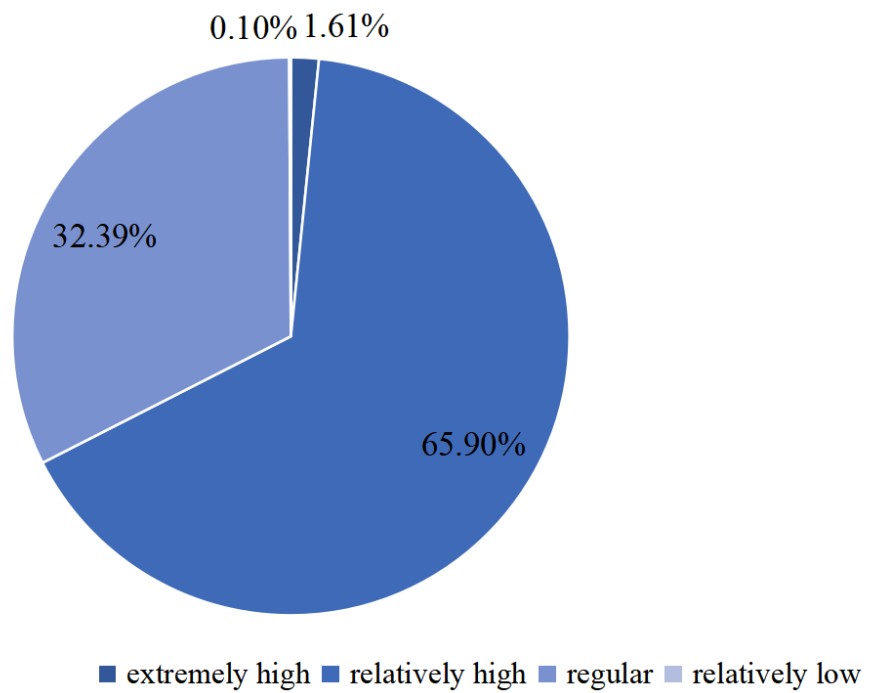


Table 1. Regional operating conditions ranking

		No. of companies	Business Sentiment Index	Diffusion index: Operating conditions	Diffusion index: Investment opportunities
Top Five	National	2047	54	65	46
	Shanxi	9	61	61	61
	Hunan	27	58	69	52
	Beijing	9	57	67	50
	Guangdong	102	56	72	46
	Hubei	28	56	73	46
Bottom Five					
	Jilin	15	43	43	40
	Xinjiang	5	50	60	50
	Hebei	54	51	58	45
	Shaanxi	20	51	55	48
	Anhui	39	51	58	47

Table 2. Industry operating conditions ranking

		No. of companies	Business Sentiment Index	Diffusion index: Operating conditions	Diffusion index: Investment opportunities
Top Five	National	2047	54	65	46
	Electricity, heat production and supply	9	61	61	61
	Gas production and supply	27	58	69	52
	Coal mining and processing	9	57	67	50
	Water production and supply	102	56	72	46
	IT, communications and infrastructure	28	56	73	46
Bottom Five					
	Other manufacturing	15	43	43	40
	Non-metallic mining and processing	5	50	60	50
	Metal products	54	51	58	45
	Leather, fur, down and shoes	20	51	55	48
	Rail, sea, air transportation manufacturing	39	51	58	47

Table 3. Manufacturing conditions

	No. of companies			Business Sentiment Index		Diffusion index – Operating conditions			Diffusion index – Expected change in operating conditions costs		Diffusion index – Investment opportunities	
	Q3	Q2	2021	Q3	Q2	Q3	Q2	Q3	Q2	Q3	Q2	
	2020	2021	2021	54	55	65	65	51	51	50	46	48
National	683	674	682	56	57	70	71	51	50	47	49	
Large	682	673	682	54	54	65	63	51	51	48	49	
Medium	682	674	682	51	53	59	62	50	50	44	46	
Small	206	204	206	58	59	72	76	55	51	47	50	
State	10	10	10	47	50	55	60	50	50	35	40	
Collective	1607	1614	1607	53	54	64	64	50	50	46	48	
Private	224	193	224	54	55	65	67	51	51	45	48	
Foreign-invested	177	173	177	59	59	73	76	56	51	47	49	
State monopoly	31	32	31	56	59	69	77	52	50	47	50	
State-invested	10	10	10	47	50	55	60	50	50	35	40	
Collective	1607	1614	1607	53	54	64	64	50	50	46	48	
Private	278	244	278	54	55	67	68	51	51	45	48	
Foreign-invested	189	205	189	53	54	61	62	49	50	47	48	
products	575	354	575	56	55	67	65	53	50	47	48	
products	158	118	158	55	56	66	69	50	51	48	49	
Capital goods	1125	1344	1125	53	55	64	65	49	50	46	48	
Producer goods												

Table 4. Short- and mid- term limitations

	State-owned	Private	Foreign-invested	Collective
Factors limiting manufacturing operations next season	Controlled/holding			
Fierce competition	53.85%	63.16%	67.27%	90.00%
Insufficient market demand (China and overseas)	51.44%	76.29%	75.54%	20.00%
High raw material and parts costs	12.02%	13.50%	11.87%	10.00%
High logistics costs	1.92%	3.80%	2.52%	20.00%
Labor does not meet company needs	0.48%	2.18%	1.44%	0.00%
Product does not meet market needs	5.77%	10.14%	11.15%	0.00%
Govt policy insecurity	1.44%	1.74%	2.52%	0.00%
Other	18.27%	16.18%	20.86%	20.00%
Factors limiting companies' medium term development	19.71%	4.42%	5.76%	10.00%
Digital transformation	1.92%	7.41%	5.40%	0.00%
Green manufacturing	49.52%	57.50%	57.91%	60.00%
Natural material policies	4.81%	11.01%	20.14%	10.00%
High tech HR supply	12.02%	11.82%	15.47%	10.00%
Tech innovation	54.33%	45.99%	47.84%	50.00%
Company policies	3.85%	6.47%	6.83%	10.00%
Sufficient funding	7.21%	16.30%	12.23%	0.00%
Govt policy insecurity	36.54%	51.90%	52.16%	40.00%
Other	20.67%	6.66%	7.55%	10.00%

Table 5. Market supply and demand conditions

	No. of companies		Diffusion index – Domestic oversupply		Diffusion index – Overseas oversupply		Diffusion index – Finished product inventory	
	Q3	Q2	Q3	Q2	Q3	Q2	Q3	Q2
	2017	2021	97	96	100	100	48	44
National								
Large	683	674	96	95	100	100	51	50
Medium	682	673	97	97	100	100	47	42
Small	682	674	97	97	100	100	44	42
State	206	204	82	79	100	100	49	54
Collective	10	10	94	94	100	100	29	36
Private	1607	1614	99	98	100	100	47	43
Foreign-invested	224	193	99	98	100	100	49	50
State monopoly	177	173	82	79	100	100	50	54
State-invested	31	32	84	78	100	100	50	59
Collective	10	10	94	94	100	100	29	36
Private	1607	1614	99	98	100	100	47	43
Foreign-invested	278	244	99	98	100	100	49	49
Long-lasting consumer products	189	205	100	100	100	100	43	45
Short-term consumer products	575	354	90	100	100	100	49	42
Capital goods	158	118	100	100	100	100	42	49
Producer goods	1125	1344	99	95	100	100	48	45

Table 6. Industries with severe overcapacity

Industry	No. of companies	Proportion of companies with overcapacity by more than 20%	Proportion of companies with overcapacity by more than 10%
Non-metal mining and processing	10	70	90
Car making	24	58	75
Paper making	22	55	82
Metal production	35	46	66
Home furnishings	16	44	56
Agricultural adjacent foods	60	42	58
Leather, wool and shoes	8	38	75
Cloth and clothing	14	36	50
Non-metal mined products	68	35	66
Chemical products	6	33	33

Table 7. Regions with severe overcapacity

	No. of companies	Proportion of companies with overcapacity by more than 20%	Proportion of companies with overcapacity by more than 10%
Heilongjiang	4	50	50
Jilin	15	47	73
Guangxi	23	43	61
Sichuan	42	43	55
Tianjin	26	42	58
Xinjiang	5	40	40
Hubei	28	39	54
Beijing	9	33	56

Table 8. Costs and prices

	No. of companies		Diffusion index – unit costs		Diffusion index – labor costs		Diffusion index – raw materials		Diffusion index - prices	
	Q3	Q2	Q3	Q2	Q3	Q2	Q3	Q2	Q3	Q2
National	2047	2021	57	58	50	51	57	57	51	52
Large	683	674	59	59	51	51	58	58	51	52
Medium	682	673	56	58	50	51	56	56	51	51
Small	682	674	56	57	50	51	56	56	51	51
State	206	204	56	57	50	51	56	57	50	51
Collective	10	10	45	50	45	50	50	50	50	50
Private	1607	1614	57	58	50	51	57	56	51	51
Foreign-invested	224	193	56	62	51	51	56	60	52	53
State monopoly	177	173	55	56	50	51	56	57	50	51
State-invested	31	32	61	59	52	53	60	61	55	53
Collective	10	10	45	50	45	50	50	50	50	50
Private	1607	1614	57	58	50	51	57	56	51	51
Foreign-invested	278	244	57	62	51	51	57	61	52	53
Long-lasting consumer products	189	205	56	61	49	50	57	59	51	52
Short-term consumer products	575	354	58	59	50	51	58	57	51	52
Capital goods	158	118	53	57	50	51	53	55	50	52
Producer goods	1125	1344	57	57	50	51	57	56	51	51

Table 9. Corporate financing conditions

	No. of companies		Proportion of companies with loans		Proportion of companies with new loans		Funding organization attitudes		Change in loan interest rates	
	Q3	Q2	Q3	Q2	Q3	Q2	Q3	Q2	Q3	Q2
National	2047	2021	46	47	7	9	98	94	41	36
Fixed asset investment	365	359	51	56	8	11	97	91	28	22
Large	683	674	52	54	8	12	97	97	38	36
Medium	682	673	46	44	8	9	99	92	46	39
Small	682	674	41	42	5	5	97	89	36	31
State	206	204	34	37	4	5	100	100	50	40
Collective	10	10	40	40	0	0				
Private	1607	1614	48	48	7	9	98	92	39	34
Foreign-invested	224	193	42	49	11	13	98	98	46	44
State monopoly	177	173	30	35	3	4	100	100	50	36
State-invested	31	32	55	50	10	9	100	100	50	50
Collective	10	10	40	40	0	0				
Private	1607	1614	48	48	7	9	98	92	39	34
Foreign-invested	278	244	44	50	10	12	96	93	45	40
Long-lasting consumer products	189	205	48	41	7	7	100	100	38	30
Short-term consumer products	575	354	43	50	7	10	99	99	39	36
Capital goods	158	118	47	52	7	6	100	93	41	36
Producer goods	1125	1344	47	46	7	9	97	91	42	36